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SUBJECT: A/S HILL MEETING WITH VICE PRESIDENT KALLA

Classified By: Classified by Economic Officer Ruth M. Hall, Reasons 1.4
b,d.

11. (C) Summary: Visiting EAP Assistant Secretary Hill focused on economic issues in his May meeting with Vice President Jusuf Kalla. Hill praised Indonesia for its new investment law, but urged Indonesia to do more to attract foreign investment, as Vietnam is doing. Hill also raised the Newmont trial and the terrorist-linked &charity8 Kompak. Kalla noted that stability was essential for economic growth and hoped Indonesia would achieve 6.4% growth this year and 7% growth next year. Aceh is stable and Papua is improving, Kalla noted. Kalla said instead of changing the problematic labor law, the government might make changes through regulations. Kalla linked Kompak with the Poso conflict in central Sulawesi and said its influence would cease when the conflict ceased. End Summary.

New Investment Law

12. (SBU) A/S Hill praised Indonesia for passing its new investment law in March. Vice President Kalla responded that the amendments to the tax law would be next. He emphasized the importance of stability and democracy for Indonesia's growth. "Without stability, nothing is accomplished," Kalla noted. He also said it is important that growth benefit all Indonesia's people.

Stability Growth - Aceh and Papua

13. (SBU) Hill said he hoped that discussions could continue on a new OPIC agreement. Kalla did not respond. He hoped that Indonesia could achieve its growth targets, but that natural and transportation disasters had cost the government of Indonesia (GOI) a lot in recent months. The GOI hopes for 6.4% growth this year and 7% growth next year. Stability and security are improving, Papua is no longer a big concern. High commodity prices have been good for Indonesia's exports. He expressed gratitude for U.S. support in Aceh reconstruction and tsunami early warning efforts. Hill congratulated Kalla on success in Aceh, and said that 6-7% growth for Indonesia will be very impressive. Kalla was pleased that peace had not broken down in Aceh, noting that it was good that the Free Aceh Movement (GAM) had joined the national system.

Investment and Business Climate

14. (SBU) Kalla said it was important to increase long-term investment and to improve productivity in the oil and gas sector, which can take two years for a large project. "We have to convince everyone that Indonesia is really stable to attract foreign direct investment," Kalla noted. A/S Hill said that foreign investors also look to other factors such as the treatment of foreign companies, and cited Newmont as an example. It is disappointing that the prosecutors are appealing given the complete acquittal. Kalla noted there is sometimes a conflict between environmentalists and business and that, "This whole thing started from your own New York Times." A/S Hill noted the striking contrast between the Newmont case and the mudflow in East Java. Hill said that Vietnam was creating a very competitive business climate, bringing in foreign investment, and stressed the need for Indonesia to take more aggressive action to compete. Kalla said he had taken note of Intel's \$1 billion investment there announced last year.

Labor Law

15. (SBU) On the labor law, Kalla said that in Soeharto's day, Indonesia had no unions, now there are eight, all competing with each other. In some ways, it would be more efficient to simply change the implementing regulations rather than create a new law. Most of the labor problems come up in labor intensive industries such as garment manufacturing, which sometimes underpay the workers. U.S. companies, Kalla said,

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have fewer labor problems in Indonesia because they are more capital intensive and pay well.

Military Governments Bad for Business

16. (SBU) Kalla asked about Vietnam's attitudes toward the U.S. Hill said that it is a very young population so bad feelings from the Vietnam war are fading. The democracy there has a long way to go and the U.S. wants Vietnam's progress to be not only in the economic sector. Vietnam has high growth which may hit 10%. Thailand's military government is dampening investor interest. It is starting to pay a real economic price for its military government, with no elections in sight. Kalla said that Indonesia's democracy is "very noisy," which makes it not always easy to get things done, especially in the Parliament. Hill commented that some in the new U.S. Congress were questioning improved bilateral military-to-military cooperation.

Radicalism, Islam, Kompak

17. (C) Hill complimented the Vice President for his work to stem radical Islam in Indonesia. He raised the issue of Kompak (a "charitable" organization in Indonesia with ties to JI) as a problem that needed addressing. Kalla responded that radicalism comes from a sense of social, political and economic inequality. The problems in Sulawesi and Maluku are more due to social and economic factors rather than religion. "Where there is unemployment, it is easier to radicalize people," Kalla said. "It is not like the Middle East where some children of wealthy families become radical." Kalla said Kompak was involved in the sectarian conflict in Poso (central Sulawesi). "When the conflict is over, Kompak will be no more."

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